Opening Statement

Chairman Michael G. Oxley

Committee on Financial Services

"Reforming the Real Estate Settlement Procedure:
Review of HUD's proposed RESPA Rule"

Thursday, October 3, 2002

Today the Financial Services Committee holds its first hearing on the Administration's proposal to reform the mortgage disclosure and settlement process. For the average American, that process is called a real estate "closing" or "settlement." For policy wonks and mortgage finance technicians, that process is called the Real Estate Settlement Procedures Act of 1974 or RESPA.

In 1998, the former Banking and Financial Services Committee held two hearings on this very issue. In those hearings, the Committee looked at recommendations from HUD and the Federal Reserve. The issues four years ago included whether the recommendations:

- made mortgage disclosures easier for consumers to understand and less onerous for the industry to implement;
- improved the timing of the disclosures, such that they could serve as an effective shopping tool;
- provided consumers with more certainty about the money that will be needed at the closing table; and
- provided for a competitive marketplace without sacrificing the quality of services provided or creating conflicts of interest.

Not much has changed in four years and those issues resonate today as the Committee looks at another proposal to simplify the closing process.

The Secretary of Housing and Urban Development, Mel Martinez, has provided the leadership necessary to move the debate forward on how best to meet the twin objectives of providing a meaningful disclosure process for the potential homebuyer – keeping closing costs down and prohibiting unfair fees – and, at the same time, meeting the market and technology needs of the mortgage finance system, which are far different than envisioned in RESPA's creation in 1974.

In 1974, the mortgage lending and home buying experience was simpler. A homebuyer approached a local lending institution for a mortgage, and that entity managed the process from application to funding. The funded loan was then held in the lender's portfolio, and the lender collected and applied the monthly payments. Today, however, the market is much different. Different parities may originate, hold, and service the funded mortgage, and intermediaries have come about to join the parties together.

On July 29, 2002, HUD published a proposed rule that would significantly alter, through regulation, the mortgage financing process. This proposal, if finalized, will result in significant changes in how Americans purchase homes.

My understanding is that the intent of the rule is to:

- change the way lender payments to brokers are recorded and reported to consumers;
- improve HUD's Good Faith Estimate settlement cost disclosure; and
- remove regulatory barriers to allow market forces and increased competition to promote greater choice for consumers by allowing guaranteed packages or "bundling" of settlement services and mortgage loans.

The Secretary and the Administration are to be commended for taking this first step. We welcome the Secretary here today to allow him the opportunity to explain the rule, explain its rationale, and to answer our questions and respond to our concerns.

Let's be clear, this is a very complex rule with significant impact on the American home buying experience. We have an extraordinary opportunity to remedy what many common Americans believe is a broken, convoluted and wasteful experience. Even the Secretary himself, when announcing reform, talked about his home buying experience here in the metropolitan Washington area. He was the confirmed HUD Secretary and an attorney, yet he still didn't understand all the settlement documents and charges before him. Just like other Americans, he signed the papers and moved-in.

For most American families, buying a home is the single biggest investment they will ever make. It is unacceptable for the home buying process itself to be one of the most confusing ordeals that our citizens ever have to go through.

As a public policy, for the good of communities and families across the country, we want to encourage homeownership. We want to increase our homeownership rate beyond today's record 69 percent to reach the lower income, inner-city, minority and single-family households who traditionally lag behind the national average. Moreover, we want transparency in a process that all the participants can agree is fair and cost-efficient.

This proposal, I believe, is a first step in the right direction in making that goal a reality.

Mr. Secretary, welcome back to the Financial Services Committee, we look forward to your testimony. We also thank you and your staff, notably General Counsel Dick Hauser and Federal Housing Commissioner John Weicher, for starting this process.

I look forward to working with you to understand the complexities of the proposed rule and making adjustments where necessary so that we have a fair and workable product.

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